

Report of the auditor-general to the Gauteng Provincial Legislature and the council on the City of Tshwane Metropolitan Municipality

Report on the audit of the consolidated and separate financial statements

Opinion

1. I have audited the consolidated and separate financial statements of the City of Tshwane Metropolitan Municipality and its subsidiaries (the group) set out on pages ... to ..., which comprise the consolidated and separate statement of financial position as at 30 June 2017, the consolidated and separate statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the consolidated and separate financial statements, including a summary of significant accounting policies.
2. In my opinion, the consolidated and separate financial statements present fairly, in all material respects, the consolidated and separate financial position of the group as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practices (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2016 (Act No. 3 of 2016) (DoRA).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the consolidated and separate financial statements section of my report.
4. I am independent of the group in accordance with the International Ethics Standards Board for Accountants' Code of ethics for professional accountants (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Key audit matters

6. Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the current period. These matters were addressed in the context of my audit of the consolidated and separate financial statements as a whole and in forming an opinion thereon and, I do not provide a separate opinion or conclusion on these matters.

Key audit matter	How the matter was addressed in the audit
Significant difficulties encountered in obtaining information requested for audit purpose	
<p>The engagement letter signed with the accounting officer agreed to provide requested documents within five working days. The group was unable to provide in some cases the requested documents within the agreed time. These significant difficulties adversely affected the allocated time for audit execution and the evaluation of audit evidence. Accordingly, the significant difficulties in providing requested information and the impact thereof, are considered the key audit matter.</p>	<p>To monitor the submission of documents in response to the request for information, a tracking mechanism was set up between the group and senior members of the audit team. Where information was not provided in time, concerns were escalated to the leadership at various platforms as follows:</p> <ul style="list-style-type: none"> • Regular audit steering committee meetings were held to assess the significant difficulties encountered in obtaining information not provided. The impact on the financial statements was assessed and reported accordingly. • Escalation of significant difficulties encountered in obtaining information to the accounting officer and those charged with governance during status of records review. • Submitting progress reports to the accounting officer on a regular basis. <p>I am satisfied that all material outstanding information has been provided and sufficient time was available to assess and report where applicable.</p>

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 47 to the consolidated and separate financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors in the consolidated and separate financial statements of the group at, and for the year ended 30 June 2017.

Material uncertainties

9. With reference to note 55 to the consolidated and separate financial statements, the group is the defendant in various lawsuits. The outcome of these matters cannot presently be determined and/or reliably measured; therefore, no provision for any liabilities that may result has been made in the consolidated and separate financial statements.

Material impairment

10. As disclosed in note 22 to the consolidated and separate financial statements, consumer receivables were significantly impaired as the recoverability of these amounts is doubtful. The allowance for impairment of consumer receivables amount to R6,4 billion (2015-16: R5,7 billion) which represents 58% (2015-16: 62%) of consumer debtors. The contribution to provision for debt impairment was R488,8 million (2015-16: R379,4 million).

Material losses

11. As disclosed in note 60 to the consolidated and separate financial statements, material electricity losses of R1,6 billion (2015-16: R1,3 billion) was incurred which represents 20,58% (2015-16: 19,28%) of total electricity purchased. Technical losses amounted to R536,7 million (2015-16: R489,2 million) and were due to losses incurred during the distribution of electricity from the source to the final consumer. Non-technical losses amounted to R1 billion (2015-16: R858,2 million) and were due to administrative and technical errors, negligence, theft of electricity, tampering with meters and connections which form part of illegal consumption and faulty meters.

Unauthorised expenditure

12. As disclosed in note 48 to the consolidated and separate financial statements, unauthorised expenditure of R620 million (2015-16: R1,7 billion) was incurred, due to over-expenditure by ten strategic units.

Financial sustainability

13. As disclosed in note 69 to the consolidated and separate financial statements, the municipality's current liabilities exceeded current assets as at 30 June 2017 and the liquidity ratios were below the norm due to the non-achievement of the debtor collection target rate.

Other matters

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

15. In terms of section 125(2)(e) of the MFMA the group is required to disclose particulars of non-compliance with the MFMA in the consolidated and separate financial statements. This disclosure requirement did not form part of the audit of the consolidated and separate financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer for the consolidated and separate financial statements

16. The accounting officer is responsible for the preparation and fair presentation of the consolidated and separate financial statements in accordance with the SA Standards of GRAP, the requirements of the MFMA and the DoRA, and for such internal control as the accounting officer determines is necessary to enable the preparation of the consolidated and separate financial statements that are free from material misstatement, whether due to fraud or error.
17. In preparing the consolidated and separate financial statements, the accounting officer is responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless there is an intention either to liquidate the group or to cease operations, or there is no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the consolidated and separate financial statements

18. My objectives are to obtain reasonable assurance about whether the consolidated and separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated and separate financial statements.
19. A further description of my responsibilities for the audit of the consolidated and separate financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

20. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected outcomes presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
21. My procedures address the reported performance information, which must be based on the approved performance planning documents of the group. I have not evaluated the completeness and appropriateness of the performance indicators included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

22. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected outcomes presented in the annual performance report of the group for the year ended 30 June 2017:

Outcomes	Pages in the annual performance report
Outcome 1 – A resilient and resource-efficient city	x – x
Outcome 2 – A growing economy that is inclusive, diversified and competitive	x – x
Outcome 3 – Quality infrastructure development that supports liveable communities	x – x
Outcome 5 – An African capital city that promotes excellence and innovative governance solutions	x – x
Outcome 6 – South Africa's capital city with active citizens who are engaging, aware of their rights and who present themselves as partners in tackling societal challenges	x – x

23. I performed procedures to determine whether the reported performance information was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
24. The material findings in respect of the usefulness and reliability of the selected outcomes are as follows:

Outcome 1 – A resilient and resource-efficient city

Number of service stands provided with sewer reticulation

25. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of target number of service stands provided with sewer reticulation. This was due to the evidence provided did not agree to reported achievements. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 2 929.

Outcome 2 – A growing economy that is inclusive, diversified and competitive

Number of new work opportunities facilitated by the City

26. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of the target. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine if adjustments are required to the reported achievement of 17 183.

AND

27. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following outcomes:

- Outcome 3 – quality infrastructure development that supports liveable communities
- Outcome 5 – an African capital city that promotes excellence and innovative governance solutions
- Outcome 6 – South Africa's capital city with active citizens who are engaging, aware of their rights and who present themselves as partners in tackling societal challenges

Other matters

28. I draw attention to the matters below.

Achievement of planned targets

29. Refer to the annual performance report on pages x to x for information on the achievement of planned targets for the year and explanations provided for the under/overachievement of a number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs x,x,x of this report.

Adjustment of material misstatements

30. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of the following outcomes:

- Outcome 1 - a resilient and resource-efficient city
- Outcome 2 - a growing economy that is inclusive, diversified and competitive
- Outcome 5 - an African capital city that promotes excellence and innovative governance solutions.

31. As management subsequently only corrected some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on the audit of compliance with legislation

Introduction and scope

32. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the group with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

33. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

34. The consolidated and separate financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of non-current assets, current assets, expenditure and disclosure items identified by the auditors in the submitted consolidated and separate financial statement were subsequently corrected and/or the supporting records were provided subsequently, resulting in the consolidated and separate financial statements receiving an unqualified audit opinion.

Revenue management

35. An effective system of internal control for consumer receivables and revenue was not in place, due to the high number of estimates on accounts for services rendered and impairment principles applied for consumer receivables, as required by section 64(2)(f) of the MFMA.

Asset management

36. An effective system of internal control for assets including an adequate asset register was not in place, as there was no asset management plan and adequate controls to account for new and completed assets, as required by section 63(2)(c) of the MFMA.

Expenditure management

37. Money owed by the group was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.
38. Effective steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The value of R1,2 billion, as disclosed in note 50, is not complete as management was still in the process of quantifying the full extent of the irregular expenditure. The majority of the disclosed irregular expenditure was caused by non-compliance with the requirements of the supply chain management (SCM) policy.

Procurement and contract management

39. Sufficient appropriate audit evidence could not be obtained that some contracts were awarded in accordance with the legislative requirements as not all contracts were submitted for auditing. A similar limitation was also reported in the previous year.
40. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Deviations were approved by the accounting officer even though it was not impractical to invite competitive bids, in contravention of SCM regulation 36(1). Similar non-compliance was also reported in the previous year.

Consequence management

41. Some of the irregular expenditure incurred by the group was not investigated to determine if any person was liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

42. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the consolidated and separate financial statements, the auditor's report and those selected outcomes presented in the annual performance report that have been specifically reported on in the auditor's report.
43. My opinion on the consolidated and separate financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
44. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated and separate financial statements and the selected outcomes presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
45. If, based on the work I have performed on the other information that I obtained prior to the date of this auditor's report, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Internal control deficiencies

46. I considered internal control relevant to my audit of the consolidated and separate financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.

Leadership

47. The accounting officer and senior management did not adequately perform oversight responsibility over financial and annual performance reporting resulting in material adjustments required on the consolidated and separate financial statements, annual performance reports and non-compliance with the MFMA and SCM regulations.
48. The group developed a plan to address audit findings, but adherence to the plan on key items such as procurement, contract management and asset management were not monitored adequately by the appropriate level of management, resulting in a number of repeat findings on assets and non-compliance with the MFMA and SCM regulations. The group failed to properly analyse the control weaknesses and implement appropriate follow-up actions that addressed the root causes.

Financial and performance management

49. Effective financial and internal control disciplines were not implemented to ensure fairly presented consolidated and separate financial statements. The preparation and review processes were ineffective which resulted in material adjustments to the consolidated and separate financial statements and findings on the annual performance report.

Other reports

51. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the group's consolidated and separate financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the consolidate and separate financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

52. Two hundred and twenty seven (227) cases were investigated of which one hundred and thirty three (133) investigations were completed and ninety four (94) were in progress into alleged financial irregularities, financial misconduct and fraud were completed during the year under review. Various measures were recommended, including taking action against the identified officials, and these were in process of being implemented. The recommendations were at various stages of implementation.

Auditor - General

Pretoria

31 December 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the consolidated and separate financial statements, and the procedures performed on reported performance information for selected outcomes and on the group's compliance with respect to the selected subject matters.

Financial statements

In addition to my responsibility for the audit of the consolidated and separate financial statements as described in the auditor's report, I also:

- identify and assess the risks of material misstatement of the consolidated and separate financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
- conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the City of Tshwane Metropolitan Municipality and its subsidiaries ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the

consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

Communication with those charged with governance

I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.

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